

Issue 64: INSIDER'S EDGE: Veterans' Benefits

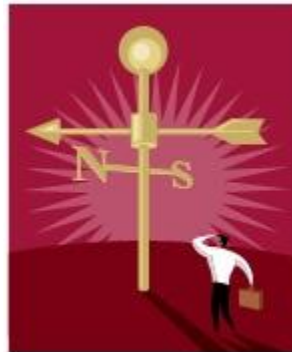
Happy Friday, Insiders! Welcome to another issue of the Insider's Edge. Today's issue looks at a question submitted by a reader regarding veterans' benefits. To keep us from getting bogged down in alphabet soup, you'll want to remember two acronyms important for today's issue:

- **MAGI**—modified adjusted gross income. As our longtime readers know, MAGI is the applicant's gross income after deductions, plus foreign income and tax-exempt interest.
- **VA**—Department of Veterans Affairs

Ok, here we go!

In Issue 30: *INSIDER'S EDGE: DOs and DON'Ts—MAGI is back!*, you indicate that VA benefits do not count as income under the MAGI rules. However, the federal regulations state that consumers must report a military pension as income but not VA disability payments. Can you clarify this for me?

Great question! Your understanding of the situation is accurate—benefits paid through the VA are *not* considered income for under the MAGI rules. However, certain military pensions must be reported as income.



As you likely recall, the guidepost for determining MAGI is IRS Form 1040, U.S. Individual Tax Return. When considering what income must be reported for MAGI, applicants should look at lines 7 through 21 on Form 1040. Any income not counted as income on lines 7 through 21 will *not* be part of MAGI.

Applicants should not include in their income any veterans' benefits paid under any law, regulation, or administrative practice administered by the VA. These include:

- Education, training, and subsistence allowances,
- Disability compensation and pension payments for disabilities paid either to veterans or their families,
- Grants for homes designed for wheelchair living,
- Grants for motor vehicles for veterans who lost their sight or the use of their limbs,
- Veterans' insurance proceeds and dividends paid either to veterans or their beneficiaries, including the proceeds of a veteran's endowment policy paid before death,
- Interest on insurance dividends left on deposit with the VA,
- Benefits under a dependent-care assistance program,
- The death gratuity paid to a survivor of a member of the Armed Forces who died after September 10, 2001, or

- Payments made under the VA's compensated work therapy program.

However, military retirement pay that is based on *age or years of service* is considered a pension and is taxable and *will* count toward MAGI.

Want to know more? The IRS has provided guidance on what is and is not taxable income when it comes to military pay, <http://www.irs.gov/publications/p17/ch05.html>. See the entry "Veterans' benefits" under the "Military" section and the entry "Military and Government Disability Pensions" under "Disability Pensions".

That's it for now! Have a question? Send it my way, dhmh.medicaidmarge@maryland.gov.